Arkansas River Power Authority

Financial Statements

December 31, 2020 and 2019

Arkansas River Power Authority
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December 31, 2020 and 2019

rfarmer, llc
a certified public accounting and consulting firm

Independent Auditor's Report

Board of Directors
Arkansas River Power Authority

We have audited the accompanying financial statements of the business-type activities of Arkansas River Power Authority, ("ARPA"), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise ARPA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of ARPA, as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

p o box 1173 203 east oak st. lamar, colorado 81052 (719) 336-7428 (719) 336-2982

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ARPA's basic financial statements. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

rfarmer, llc

May 5, 2021

This discussion and analysis of the Arkansas River Power Authority's ("ARPA" or the "Authority") financial performance provides an overall review of the Authority's operational and financial activities for the year ended December 31, 2020. The intent of this discussion and analysis is to look at ARPA's financial and program performance as well as its power supply resources; readers should review ARPA's financial statements in their evaluation of the Authority's financial performance.

ACCURACY AND PRESENTATION OF DATA

The responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of ARPA, including but not limited to the Board of Directors and the General Manager. To the best of our knowledge, the enclosed data is accurate in all material respects.

The Authority's financial statements have been audited by rfarmer, llc, a licensed certified public accounting firm. The goal of the independent audit is to provide reasonable assurance that the financial statements of ARPA for the fiscal year ended December 31, 2020, are free of material misstatements. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by Management; and evaluating the overall financial statement presentation. The independent auditor concluded the financial statements of ARPA present fairly, in all material respects, the financial position of ARPA as of December 31, 2020, and the results of its operations and cash flows for the year then ended in conformity with GAAP as applied to governments.

MISSION AND ORGANIZATIONAL STRUCTURE

ARPA is a political subdivision of the State of Colorado established by its municipal members in 1979 under provisions of an intergovernmental cooperation statute, CRS section 29-1-204. The Authority's primary purpose is to supply the wholesale electric power, energy, and transmission requirements of its Member Municipalities - Holly, La Junta, Lamar, Las Animas, Trinidad and Springfield, Colorado.

SUMMARY AND HIGHLIGHTS OF FINANCIAL INFORMATION

The Authority's operating revenue from sales for its fiscal year ended December 31, 2020, was approximately $28.7 million from sales to members. Sales for the year remained strong, albeit slightly lower than sales in 2019. The Authority reduced its base energy rate by 2% for fiscal year

2019, which followed several years of stable rates. Prior to the rate decrease in 2019, ARPA had not adjusted its rates, either up or down, since 2012.

ARPA purchased approximately 63% of its power supply through a contract with Public Service Company of Colorado ("PSCo"). This contract remains in effect through January of 2025. The Authority purchased approximately 29% of its power supply from two-long-term contracts for hydro power from the Western Area Power Administration ("WAPA"). 8% of the Authority's supply came from wind turbines it owns and wind generation owned by one of its members, the Lamar Utilities Board.

The Authority maintains several contracts related to transmission services it provides for its members. It has two Network Transmission Service contracts, one with Black Hills Colorado Electric and the second with the Tri-State Generation and Transmission Association ("Tri-State"). It also has a contract with Xcel Energy for Ancillary services, and several sub-transmission contracts with various entities related to transmission operations.

Costs for transmission service increased again in 2020 by approximately 1.8%. This was due to increases in the Authority's Network Transmission service. Unfortunately, the Authority has seen its cost for Network Transmission Service increase significantly since 2016. One of the Authorities Network Transmission providers, Tri-State, submitted an application to seek jurisdiction under the Federal Energy Regulatory Commission ("FERC") in 2019 and filed its Open Access Transmission Tariff with FERC shortly thereafter. The Authority filed an intervention and protest in the filing, in an effort to analyze the costs included in the transmission tariff, and to evaluate opportunities to reduce costs. The matter is ongoing.

The Authority continued to improve its financial position in fiscal year 2020, as it realized a change in net position of approximately $4.2 million. The Authority also improved its cash position by approximately $1.7 million as it completed another financially successful year. The improvement in its financial position allowed the ARPA Board to announce plans to retire its 2010 Bond Series in the amount of approximately $15 million early in 2021. In addition, the Board announced plans to reduce its base energy rate by 3.5% in 2021 as well. This effort is consistent with the Board's continued effort to reduce rates to its members.

GENERAL TRENDS AND SIGNIFICANT EVENTS

In July of 2018, the Authority closed on a bond refinancing that reduced its annual debt service costs by approximately $700,000. The 2018 refinancing included ARPA's 2003, 2006, 2007, and 2008 bonds and totaled approximately $119 million. The bonds were refinanced with both tax-exempt bonds ($99.4 million) and taxable bonds ($19.9 million). The bonds are scheduled to be fully retired by 2043.

In 2020, the Authority continued to be in full compliance with all its bond covenants including fully funding all its bond reserve accounts, meeting its 1.25 times debt service coverage ratio, and maintaining the required disclosures with the Municipal Securities Rulemaking Board via the Electronic Municipal Market Access website.

In 2014 the Authority commenced legal action against Babcock and Wilcox ("B&W"), the company that designed a Circulating Fluidized Bed boiler for the Authority's 44 mega-watt Lamar Repowering Project ("LRP") power plant. The boiler failed to meet emissions and performance guarantees and was never able to perform per its contracted obligations. In November of 2016, ARPA was awarded damages by the U.S. District Court for the District of Colorado for the performance failures. In 2018 the parties agreed to a settlement of the damages that resulted in three payments from B&W to the Authority totaling $7.0 million. The first payment of $2.5 million was made in July of 2018 and the second payment of $2.5 million was made in July of 2019. A final payment of $2.0 million was made in July of 2020.

In July 2014, the City of Lamar and four ratepayer plaintiffs filed a lawsuit against the Authority and Syncora Guarantee, Inc. ("Syncora") (ARPA's bond insurer) in the Colorado District Court. The matter was settled late in 2017 and effectively ended all outstanding litigation that the Authority had been involved in. The Settlement included annual payments to Lamar that in total represent a net present value of approximately $5.11 million.

In 2014 ARPA determined that the LRP was an impaired asset and was completely written down to zero. This produced a negative change in net position that is approximately a negative $107 million at year ending 2020. The Authority began the demolition of the plant in late 2020 by executing a contract with the engineering firm of Burns and McDonnell for the demolition of the LRP. The demolition is anticipated to be completed by the summer of 2021.

CAPITAL ASSETS AND PRODUCTION CAPACITY

ARPA's current power supply resources include generation resources owned by the Authority and the Member Municipalities, including wind generation owned by ARPA and the Lamar Utilities Board, purchases of federal hydropower from WAPA and supplemental purchases from Public Service Company of Colorado.

CURRENT RISKS AND UNCERTAINTIES

The Colorado legislative session in 2019 produced a handful of actions that will impact power supply and transmission services throughout the state for many years to come. The legislature established a set of goals intended to reduce Greenhouse Gas ("GHG") emissions in the state. The goals would result in a 26% reduction in GHG by 2025 and 50% by 2030. A long-term goal of reducing GHG by 90% by 2050 was also established. The immediate effects of the legislation include the power generating utilities in the State announcing plans to close their coal fired power plants well before their expected life span. The announcements were accompanied by statements from the utilities that they are increasing their investment in renewable generation facilities. The economic impact of the actions by the utilities has yet to be determined.

In addition, a Western Energy Imbalance Service ("WEIS") was established by the Southwest Power Pool ("SPP") for utilities located in the western grid. Two entities that provide electric services to ARPA, Tri-State and WAPA, became members of the WEIS. The WEIS established an energy imbalance market that is anticipated to improve the efficiency in the management of transmission operations and power supply generation, and reduce costs for the participating members. This effort is viewed as a first step towards establishing an electric market or Regional Transmission Organization ("RTO") in the west.

It is difficult at this time, to identify the impact these activities may have on power supply and transmission operations for the Authority. The Authority's risks are mitigated for the foreseeable future through its Partial Requirements Agreement with PSCo, which includes certain provisions that will allow the Authority to effectively manage its power supply costs through the term of the Agreement (January 2025). In addition, the Authority recently renewed its federal hydropower contract with WAPA into 2054. This contract provides approximately 28% of the Authority's power needs. The Authority will continue to monitor the progress of these activities to effectively manage both its transmission and power supply costs.

The ARPA Board of Directors remains true to its Mission Statement:

We are committed to work together to promote the long-term economic well-being of our municipal members and their consumers by providing a dependable and competitively priced supply of wholesale electric power in an environmentally sound manner.

If you have any questions about this report or need additional financial information, contact the Arkansas River Power Authority, 3409 South Main, P. O. Box 70, Lamar, CO 81052 or contact us on our web-site www.arpapower.org.

Arkansas River Power Authority
Statements of Net Position
Proprietary Fund
December 31, 2020 and 2019

	Enterprise Funds	
	2020	**2019**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,893,942	$ 16,002,166
Accounts Receivable, net	2,715,635	4,275,233
Prepaid Expenses	199,816	199,084
Total current assets	20,809,393	20,476,483
Non-current assets:		
Cash and cash equivalents-Restricted	14,964,641	15,183,956
Fixed Assets	8,701,628	8,685,665
Less Accumulated depreciation	(4,722,295)	(4,453,582)
Total non-current assets	18,943,974	19,416,039
Total assets	39,753,367	39,892,522
LIABILITIES		
Current Liabilities:		
Accounts payable	1,311,906	2,138,271
Accrued interest payable	1,615,657	1,645,917
Accrued Vacation and Sick Leave	57,126	49,044
Premium paid on Bonds, current portion	254,858	254,858
Settlement payable, current portion	135,470	129,843
Bonds payable, current portion	1,015,001	2,950,000
Total current liabilities	4,390,018	7,167,933
Non-current liabilities:		
Premium paid on Bonds, net of current portion	10,141,819	10,597,639
Settlement payable, net of current portion	4,973,907	5,109,380
Bonds payable, net of current portion	127,254,999	128,270,000
Total non-current liabilities	142,370,725	143,977,019
Total liabilities	146,760,743	151,144,952
NET POSITION		
Net investment in capital assets	(119,722,703)	(128,668,178)
Unrestricted	12,715,327	17,415,748
Total net position	$ (107,007,376)	$ (111,252,430)

The accompanying notes to financial statements
are an integral part of these statements.

Arkansas River Power Authority
Statements of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
for the years ended December 31, 2020 and 2019

	Enterprise Funds	
	2020	**2019**
REVENUES		
Re-Sale of Energy to Municipalities	$ 28,711,384	$ 28,820,906
Power Billing Reimbursement	2,383,650	2,383,351
Total operating revenues	31,095,034	31,204,257
OPERATING EXPENSES		
Members Reimbursement - Fuel, O&M & Trans Exp	2,797	9,909
Purchased Power, Losses & Wheeling	16,987,782	17,160,402
Salaries	323,188	292,736
Legal Fees	486,849	153,482
Other Professional Fees	174,242	61,210
Employee Benefits	87,906	67,422
Education & Training	11,000	9,657
Auto Expenses	469	158
Miscellaneous Dues & General Expenses	30,687	35,272
Depreciation	268,713	269,617
Miscellaneous Plant Operations	35,534	69,172
Insurance & Bonds	44,320	40,949
Office, Travel & Occupancy	55,399	79,146
Total Operating Expenses	18,508,886	18,249,132
Operating income	12,586,148	12,955,125
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	250,559	500,139
Miscellaneous income	110,225	1,267
Amortization of bond premium	455,820	455,820
Interest expense	(6,773,579)	(6,862,146)
Return of reserves	(2,384,119)	(2,380,576)
Total non-operating revenue (expenses)	(8,341,094)	(8,285,496)
Income before special items	4,245,054	4,669,629
Change in net position	4,245,054	4,669,629
Total net position - beginning	(111,252,430)	(115,922,059)
Total net position - ending	$ (107,007,376)	$ (111,252,430)

The accompanying notes to financial statements
are an integral part of these statements.

Arkansas River Power Authority
Statements of Cash Flows
Business-type Activity
for the years ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Sales of Energy	$ 32,654,632	$ 33,757,120
Cash Payments to Suppliers for Goods & Services	(18,736,000)	(17,255,420)
Cash Payment for Salaries & Benefits	(323,188)	(292,736)
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,595,444	16,208,964
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Performance Deposit Repaid	-	(500,000)
Miscellaneous Income	110,225	1,267
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	110,225	(498,733)
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES:		
Return of Reserves	(2,384,119)	(2,380,576)
Settlement payments	(129,843)	(153,617)
Acquisition of Capital Assets	(15,963)	(21,063)
Interest paid on bonds and other long term debt	(6,803,842)	(6,889,520)
Revenue bonds retired	(2,950,000)	(2,840,000)
NET CASH RECEIVED (USED) FOR CAPITAL RELATED FINANCING ACTIVITIES	(12,283,767)	(12,284,776)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received on Investments	250,559	500,139
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	250,559	500,139
NET (DECREASE) INCREASE IN CASH & CASH EQUIVALENTS	1,672,461	3,925,594
CASH & CASH EQUIVALENTS:		
Beginning of Year	31,186,122	27,260,528
End of Year	$ 32,858,583	$ 31,186,122

The accompanying notes to financial statements
are an integral part of these statements.

Arkansas River Power Authority
Statements of Cash Flows
Business-type Activity
for the years ended December 31, 2020 and 2019
(Continued)

	2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	$ 12,586,148	$ 12,955,125
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities:		
Depreciation	268,713	269,617
Change in Assets and Liabilities:		
(Increase) Decrease in Receivables	1,559,598	2,552,863
Increase (Decrease) in Payables	(826,365)	632,704
(Increase) Decrease Prepaid Expenses	(732)	(199,084)
Increase (Decrease) Accrued Liabilities	8,082	(2,261)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 13,595,444	$ 16,208,964

Note: The beginning and end-of-year cash & cash equivalents include restricted and unrestricted cash.

	2020	2019
CASH DECEMBER 31,		
Cash and Cash Equivalents	$ 17,893,942	$ 16,002,166
Cash and Cash Equivalents - Restricted	14,964,641	15,183,956
	$ 32,858,583	$ 31,186,122

The accompanying notes to financial statements are an integral part of these statements.

Note 1 Description of Entity

Arkansas River Power Authority (the "Authority" or "ARPA") was established in 1975 as a non-profit corporation and became a political subdivision of the state of Colorado on November 8, 1979. The Authority is a special purpose governmental entity engaged in business-type activities. The Authority provides the wholesale electric power requirements of its member cities – Trinidad, Colorado; La Junta, Colorado; Lamar, Colorado; Las Animas, Colorado; Springfield, Colorado; and Holly, Colorado. A Board of Directors appointed by the member municipalities governs the Authority and the Board hires a manager to oversee operations, management, and administration.

The Authority is an independent governmental entity organized under provisions of the Colorado Revised Statutes. It operates within Colorado, but is not part of state government nor is it part of its member cities' governments but is an intergovernmental entity created by its members.

Note 2 Summary of Significant Accounting Policies

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Financial Reporting Entity:

The financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. This report does not contain any component units.

Basis of Presentation and Accounting:

The Authority's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements.

All the Authority's activities are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into "net investment in capital assets"; "restricted for capital activity and debt service"; and "unrestricted" components.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expense during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

Fixed Assets:

The accounting and reporting treatment applied to the fixed assets associated with a fund are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statement of net assets. Their reported net assets (net total assets) is segregated into "invested in capital assets, net of related debt" as of year-end. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

All fixed assets are valued at historical cost when that cost is $5,000 or greater or estimated historical costs if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

The Authority does not have any infrastructure.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method.

The estimated useful lives are as follows:

Building	30 years
Office Furniture & Equipment	5-7 years
Accessory Electric Equipment	10-20 years
Transportation Equipment	5 years
Generator (Holly)	20 years
Generator (Trinidad)	35 years
Mobile Substation	40 years
Transmission Line	40 years
Wind Turbines	20 years

Budgets and Budgetary Accounting:

Annual budgets are adopted as required by Colorado Statutes. Formal budgetary integration is employed as a management control device during the year. Budgets adopted are on a basis that is not consistent with generally accepted accounting principles and as such the budgetary basis is presented on a non-GAAP basis. Under Colorado Revised Statutes (CRS), the Authority follows the following budget calendar:

September 1
Statutory deadline for submission of the budget estimates to the person designated under Section 29-1-104, CRS to prepare the budget.

October 15
Budget officer must submit proposed budget to the governing board. Governing body must publish "Notice of Budget" upon receiving proposed budget. (CRS 29-1-106)

December 31
Local governments not levying a property tax must adopt the budget on or before this date. A certified copy of the adopted budget must be filed with the Department of Local Governments (DLG) no later than thirty days following the beginning of the fiscal year of the budget adopted. (January 30) The resolution to adopt the budget, resolution to set the mill levies and the resolution to appropriate funds should accompany the budget. (CRS 29-1-113(1) (3)) If budget is not filed, county treasurer at DLG's authorization will withhold tax revenues. Board must enact a resolution or ordinance to appropriate funds for ensuing fiscal year. Local government is restricted to 90% of its prior year's appropriation for operating and maintenance expenses if resolution/ordinance is adopted after this date. (CRS 29-1-108(4))

Appropriations are adopted by resolution for each fund in total. Over expenditures are deemed to exist if the total expenses have exceeded appropriations. All appropriations lapse at year-end. Supplemental appropriations were not adopted during the year.

Capitalized Interest:

Effective January 1, 2019, the Authority changed its policy regarding capitalized interests to follow the new governmental pronouncement in that interest will not be capitalized during construction. This change does not affect the financial statement presentation.

Long-Term Obligations and Costs:

Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts are deferred and amortized over the life of the bonds.

Estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents:

Cash and cash equivalents, for purpose of the statement of cash flows, include restricted and unrestricted cash on hand and certificates of deposit.

Accounts Receivable:

The majority of accounts receivable are from member cities; therefore, there is no provision for bad debts, as all accounts are considered collectible.

Restricted Assets:

Restricted assets represent cash and certificates of deposit maintained in accordance with bond resolutions, loan agreements, grant awards, and other resolutions and formal actions of the Board or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the power systems.

Compensation for Future Absences:

Accumulated vacation and the portion of sick leave eligible to be paid to employees at termination are recorded as an expense and liability as the benefits are earned.

Claims and Judgments:

These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.

Capital Contributions:

Contributions are recognized in the statement of revenues, expenses, and changes in net assets when made.

Net Position:

Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted for capital activity and debt service; and unrestricted net assets. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital activity and debt service consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net assets not included in the above categories.

Revenues and Rate Structure:

Revenues from electrical power services are recognized as operating revenues on the accrual basis as earned. Services are supplied to member cities under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves, and debt service coverage.

Interest income and miscellaneous income is considered non-operating revenue.

Note 3 Deposits and Investments

Deposits

The Colorado Public Deposit Protection Act ("PDPA") requires that all units of local government deposit cash in eligible public depositories; State regulators determine eligibility. Amounts on deposit in excess of Federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public depositories as a group. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

a) Uncollateralized,

b) Collateralized with securities held by the pledging financial institution, or

c) Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

Investments

Colorado Statutes specify in which instruments the units of local government may invest which include:

a) Repurchase agreements,

b) Obligations of the United States or obligations unconditionally guaranteed by the United States,

c) Obligations of the State of Colorado and most general obligations of units of local governments,

d) Federally insured mortgages and student loans,

e) Participation with other local governments in pooled investment funds (trusts), which are supervised by participating governments and must comply with the same restrictions on cash deposits and investments. (One such trust formed under the statute is "ColoTrust").

The Authority had various amounts invested with UMB and Morgan Stanley as of December 31, 2020 and December 31, 2019. The amounts have been invested in certificates of deposit held in various banks. The funds are restricted in use by the various bond issues outstanding at year end.

Note 4 Capacity Fund

The authority has, from time to time, restricted reserves in a fund titled Capacity Fund. The Capacity Fund's reserves are also restricted as to spending, and per Resolutions 1-83 and Resolutions 14-98, can only be expended for expansion of capacity of ARPA, for future "Firm Power" allocation, or reliability projects associated with power supply, or projects designed to maintain reliability of existing generating capacity owned by the ARPA members. The Capacity Fund balances were zero at year end for 2020 and 2019.

Note 5 **Inadvertent Accounts, Banked Power & Prepaid Expenses**

The Authority did not have any inadvertent accounts or banked power as of December 31, 2020 and 2019.

As of December 31, 2020, and 2019, the authority had prepaid expenses of $199,084 relating to costs for the movement of power through transmission lines.

Note 6 **Restricted Cash & Investments**

The authority maintains cash accounts that are restricted for specific purposes. The restricted cash and investments include moneys set aside for debt retirement and interest expense on bond issues. The balances are maintained by UMB and Morgan Stanley.

Note 7 **Pension**

Effective January 1, 1982, the Authority established a Public Employee Compensation Plan for full-time employees. The plan has a five year incremental vesting period for employer contributions and provides for a 10% employer contribution with an 8% employee matching contribution. The plan is funded through ICMA-RC. Effective August 16, 1991, a new pension plan was adopted under Internal Revenue Service Code Section 401(a). The employer contribution is 10% with the employee contributing 8% of qualifying salaries, as defined by the Plan document. During 2020, the Authority contributed $29,727 by check and the employees contributed $23,782. During 2019, the Authority contributed $10,042 by check and used $18,512 of forfeiture funds for a total contribution of $28,554 and the employees contributed $22,843.

The Authority also has a deferred compensation plan established to supplement the income provide by the ARPA retirement plan. Upon completion of three (3) year of continued full-time employment, the Authority shall match the employee's contribution to the plan 1:1, up to 6% of the employee's annual compensation. The employee's may contribute the maximum amount permitted under applicable law.

The board has the authority to change the plan when needed.

Note 8 **Vacation, Comp Time and Sick Leave Policies**

Sick leave accumulates ten days a year up to a maximum of 45 days. Upon termination, any employee with a total of up to 45 days accrued sick leave will be paid according to the individual's rate of pay.

All permanent full-time employees are entitled to vacation leave after one full year of employment. The number of vacation days depends on the number of years employed.

As a public employer, the Authority has adopted a policy of providing comp time for non-exempt employees who work overtime. The comp time earned is equal to 1.5 hours for each 1.0 hour of overtime work. If an employee leaves employment with ARPA, the employee is paid for any accrued comp time at the date of termination based on that employee's rate or equivalent hourly rate times the accrued comp time.

Vacation leave may be carried over from year-to-year up to a maximum of 20 days in addition to the current year accrual. Upon termination, unused accrued vacation leave will be paid in full, based upon the regular salary rate. Accrued vacation, comp time, and sick leave were $57,126 at December 31, 2020 and $49,044 at December 31, 2019.

Note 9 Long-Term Debt

2010 Issue:

During 2010 the Authority issued Power Revenue Bonds pursuant to an Indenture of Trust dated as of September 15, 2010, between UMB Bank, N.A., as trustee, and the Authority.

The Bonds are special and limited revenue obligations payable out of the net revenues derived from the Authority's ownership and operation of its electric system, as more particularly set forth herein and in the Indenture. The Bonds do not constitute indebtedness or a debt within the meaning of any constitutional or statutory provision or limitation, and the bonds shall not be considered or held to be general obligations of the Authority. The Bonds do not represent financial obligations of the member municipalities of the Authority or any other governmental entities other than the Authority.

The Bonds are being issued: (i) to pay outstanding unpaid Repowering Project costs; (ii) to restore a portion of the fund balances of the Authority which have been used for the payment of Repowering Project costs; (iii) to repay a short term bank loan; (iv) to fund the Reserve Account and (v) to pay the costs of issuance on the Bonds.

The maturity date for the required principal retirement is October 1 with interest paid April 1 and October 1. Future requirements are as follows:

Year	Principal	Interest	Total
2021	$ 355,000	$ 906,806	$ 1,261,806
2022	375,000	885,062	1,260,062
2023	400,000	862,094	1,262,094
2024	435,000	837,594	1,272,594
2025	460,000	810,950	1,270,950
2026-2030	2,770,000	3,595,066	6,365,066
2031-2035	3,720,000	2,636,502	6,356,502
2036-2040	6,290,000	1,349,527	7,639,527
	$ 14,805,000	$ 11,883,601	$ 26,688,601

The interest rates on the notes vary from 5.00% to 6.125%.

2018 Issue:

The Series 2018 Bonds are special and limited revenue obligations of the Authority payable out of the revenues derived from the Authority's ownership and operation of its power supply system, subject to the application of the revenues for the purposes and upon the terms set forth in the Indenture. The revenues consist of all of the income from the system, including the payments made by the Authority's six members under the power supply agreement, which extends to at least the date of the final payment and discharge of the Series 2018 Bonds and outstanding parity obligations. The Members have agreed to purchase all of their net electric power and energy requirements from the Authority, and to make payments to the Authority sufficient to pay all of the costs of the system, including the debt service on the 2018 bonds and the outstanding parity obligations. The Members have agreed to make such payments solely from the available revenues and income of their respective municipal electric utilities.

The Series 2018 bonds do not constitute an indebtedness or a debt within the meaning of any constitutional or statutory provision or limitation, and the Series 2018 bonds are not general obligations of the Authority. The Series 2018 bonds do not constitute a debt, liability or obligation of the Members or any other governmental entity other than the Authority.

The maturity date for the required principal retirement is October 1 with interest paid April 1 and October 1. Future requirements are as follows:

Year	Principal	Interest	Total
2021	$ 2,720,000	$ 5,555,816	$ 8,275,816
2022	2,835,000	5,443,610	8,278,610
2023	2,940,000	5,323,708	8,263,708
2024	3,060,000	5,193,313	8,253,313
2025	3,195,000	5,058,586	8,253,586
2026-2030	18,385,000	22,896,475	41,281,475
2031-2035	21,870,000	18,002,500	39,872,500
2036-2040	32,575,000	11,958,750	44,533,750
2041-2043	25,885,000	2,761,750	28,646,750
	$ 113,465,000	$ 82,193,508	$ 195,659,508

	January 1	Paid	Issued	December 31	Due In One Year
Long Term Bonds Payable	$ 128,270,000	$ (2,950,000)	$ -	$ 125,320,000	$ 3,075,000

Lamar Settlement:

The terms of the settlement require annual payments of $350,000, including principle and interest, to be paid annually for 26 years with an interest rate of 4.5% as follows:

Year	Principal	Interest	Total
2021	$ 135,470	$ 214,530	$ 350,000
2022	141,341	208,659	350,000
2023	147,466	202,534	350,000
2024	153,857	196,143	350,000
2025	160,525	189,475	350,000
2026-2030	913,205	836,795	1,750,000
2031-2035	1,128,998	621,002	1,750,000
2036-2040	1,395,782	354,218	1,750,000
2041-2043	932,733	58,934	991,667
	$ 5,109,377	$ 2,882,290	$ 7,991,667

Note 10 Energy Acquisition

The Authority and its member municipalities have entered into an all requirements purchase power contract (the "Power Sales Agreement") under which the members agree to obtain all their wholesale power requirements (in excess of pre-existing contracts and member-owned generation) from the Authority. This Power Supply Agreement had an initial term through October 20, 2023. In early 2006, the term of the Power Sales Agreement was extended by the member municipalities until 2040 or such later date depending on the repayment of certain bonds (see Note 9). The Authority obtains wholesale power for its member municipalities from a variety of sources. They are: (i) energy generated from member-owned power plants and wind turbines is purchased by the Authority and distributed to the members; (ii) ARPA also owns several generating units and wind turbines that are capable of supplying energy to the member systems, (iii) the Authority purchases firm power from the Western Area Power Administration, a federal power agency, under two contracts; one extends through 2024 and the second through 2054; and (iv) substantial quantities of firm power are purchased through a Services Agreement with PSCo. The agreement includes scheduling services as well as providing a power supply. Transmission service for power purchases is provided under contracts or other arrangements with Southeast Colorado Power Association, Tri-State Generation and Transmission, Black Hills Energy, Lamar Utility Board, and San Isabel Electric Association. Payment for wholesale power supply and transmission service is made by the members under a wholesale rate structure that is approved by the Authority's Board of Directors. In effect, there is no contingent liability to the Authority since the member municipalities have agreed to accept all energy obtained under contracts entered into by the Authority.

Note 11 Tax, Spending and Debt Limitations

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The Authority believes it is in compliance with the requirements of the amendment. The Authority has made certain interpretations of the amendment's language in order to determine its compliance. One of the interpretations is the entity is an Enterprise Fund and therefore is not subject to the requirements of the amendment.

Note 12 Risk Management

The Authority is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; claims relating to professional liability; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage the past two years.

Note 13 Contributed Capital - Member Entities

Under contracts with Trinidad and Holly for the Trinidad and Holly Generation Projects described in these financial statements and notes to the financial statements, the capital contributed by the involved members to these respective projects ($1,070,000) is assigned to and added to that members' equity. These contracts also require that the member-contributed capital be reduced following the commercial acceptance date of the project in an amount equivalent to the depreciation taken on the project (Trinidad Generation Project-35 years; Holly Project-20 years).

Note 14 Bond Covenants

The bond covenants require the net income, as defined and adjusted per the bond covenants, to exceed 125% of debt service, as defined in the 2010 bond covenants. For 2020 and 2019 the Authority believes it was in compliance with the respective covenants.

Note 15 Line of Credit

During 2020 the Authority renewed a line of credit for operating purposes. The total amount of the line is $1,500,000 with no amount advanced at year-end. The line is secured by a certificate of deposit in the amount of $1,518,106. The line of credit annual percentage rate is 2.475%. The note was renewed October 2020 and matures October, 2021.

Note 16 Property, Plant and Equipment

Property, plant and equipment of Arkansas River Power Authority as of December 31, 2020, are as follows:

	1-Jan	Additions	Deletions	31-Dec
Building	$ 145,589	$ 7,167	$ -	$ 152,756
Accessory Elec Equipment	182,255	-	-	182,255
Trinidad Generator	2,420,429	-	-	2,420,429
Holly Generator	535,130	-	-	535,130
Wind Generators	3,316,032	-	-	3,316,032
Mobile Substation	629,230	-	-	629,230
EZ Hauler	50,147	-	-	50,147
Office Furniture and Equipment	18,860	8,796	-	27,656
Transportation Equipment	23,325	-	-	23,325
Willow Creek Tie Line	1,364,667	-	-	1,364,667
Totals	8,685,664	15,963	-	8,701,627
Less: Accum Depreciation	(4,453,582)	(268,713)	-	(4,722,295)
Book Value	$ 4,232,082	$ (252,750)	$ -	$ 3,979,332

Arkansas River Power Authority
Budget and Actual Non-GAAP
Business-Type Activity Enterprise Fund
for the year ended December 31, 2020

	Budgeted Amounts- Original and Final	Actual Amounts- Budgetary Basis
REVENUES		
Power Billing Reimbursement	$ 2,383,668	$ 2,383,650
Resale of Energy to Municipalities	27,785,609	28,711,384
Interest Income	420,521	250,559
Miscellaneous Income	-	110,225
Total revenues	30,589,798	31,455,818
EXPENDITURES		
Members Reimbursement-Fuel	27,900	2,797
Purchased Power	17,477,288	16,987,782
Salaries	297,270	323,188
Legal Fees	746,000	486,849
Other Professional Fees	500,000	174,242
Employee Benefits	129,960	87,906
Education & Training	21,240	11,000
Auto Expense	1,000	469
Return of Reserves	2,383,668	2,384,119
Miscellaneous Dues & General Exp	43,800	30,687
Depreciation	268,711	268,713
Amortization Costs	(455,822)	(455,820)
Capital Outlay	565,000	15,963
City of Lamar settlement	214,530	129,843
Miscellaneous Plant Operations	1,001	35,534
Insurance & Bonds	44,932	44,320
Office, Travel & Occupancy	85,133	55,399
Interest Expense	6,553,425	6,773,579
Total Expenditures	28,905,036	27,356,570
Operating Income	1,684,762	4,099,248
RECONCILIATION		
Capital Outlay	-	15,963
City of Lamar settlement	-	129,843
Net change in net position	1,684,762	4,245,054
Net position - beginning	-	(111,252,430)
Net position - ending	$ 1,684,762	$ (107,007,376)